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SUBJECT: JAPANESE MORNING PRESS HIGHLIGHTS 12/13/06

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Prime Minister's schedule, December 12

NIHON KEIZAI (Page 2) (Full)
December 13, 2006

09:01
Cabinet meeting in the Diet

09:17
Arrived at the Kantei.

10:06
Met with Tomoko Tazawa, wife of the late former Justice Minister Tomoharu Tazawa, former Financial Services Revitalization Committee Chairman Ochi.

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13:18
Met LDP Secretary General Nakagawa.

14:03
Met Special Advisor to the Prime Minister Koike, followed by Internal Affairs and Communications Minister Suga.

15:00
Telephone conversation with Australian Prime Minister Howard. Special Advisor to the Prime Minister Seko was present.

17:55
Met Special Advisor to the Prime Minister Nemoto.

18:43
Arrived at the official residence.

4) Slide in Abe cabinet's approval ratings draw mixed responses among cabinet members

MAINICHI (Page 5) (Full)
December 13, 2006

Shinichiro Nishida

The mass media, including the Mainichi Shimbun, yesterday simultaneously reported on a plunge in the Abe cabinet's approval ratings. These news reports created quite a stir. The emergence of the Abe cabinet is primarily attributable to its high popularity among the public, but the pace of the falling support rates was beyond what cabinet officials had assumed. Some were apparently "shocked by a slide in the approval rates.

At a press briefing yesterday after a cabinet meeting, one member referred to the slide in the cabinet's approval rates calmly: "We shouldn't feel that it is up or down." On the other hand, another cabinet member mentioned the need to "have a system to make the prime minister's leadership felt directly by the public."

Minister of Internal Affairs and Communications Yoshihide Suga commented: "The approval ratings are something that fluctuate, so we shouldn't swing between optimism and despair. I think the right course for us to follow is to implement our pledged policies and wait for the public's judgment." Justice Minister Jinen Nagase, too, made this comment: "I think we don't have to become serious about the dip this time in the approval ratings. It is my firm belief that we can obtain public understanding if we continue to work hard."

In contrast, Environment Minister Masatoshi Wakabayashi analyzed the reason this way: "Perhaps, the prime minister's initiative may not be clear in the public's eyes." "For instance," he continued, "there was the lack of the demonstration that such pending issues that have been carried over from the Koizumi cabinet to the Abe cabinet as the

revenue for road construction were finalized owing to the prime minister's instructions."

Prime minister emphasizes his leadership by excitedly saying, "My instructions" or "my decision"

Yu Koyama

Prime Minister Shinzo Abe yesterday repeatedly emphasized his

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initiatives to reporters at the Prime Minister's Official Residence by saying, "In line with my instructions" and "I will make a decision." He appeared desperate to dispel the criticism that he lacks leadership.

Referring to a planned cut in the issuance of government bonds in the next fiscal year, Abe stated, "In line with my instructions, difficult negotiations will be held at various sectors." When asked about whether to extend the Diet session, he commented, "I'll make a final decision." During a five-minute conversation with reporters to answer a total of seven questions, the prime minister employed the word "instructions" three times.

5) LDP split over dropping support rate; Sense of urgency prevalent

ASAHI (Page 4) (Excerpts)
December 13, 2006

Views in the Liberal Democratic Party are split over the fact that the Abe cabinet's support rating plunged below 50%. The group actively supporting Prime Minister Abe is calling for the cabinet to revamp its reform posture, thinking the administration's image has been damaged by the reinstatement of the so-called postal rebels and the question of road-related tax revenues. Senior Upper House members are determined not to fluctuate between hope and despair. But they all share the view that a serious situation would occur if the support rate continues dropping.

In yesterday's meeting of the Parliamentary League to Support Second Chances that had paved the way for Abe's big lead in the latest LDP presidential race, Yuji Yamamoto, state minister in charge of the so-called "second-chance initiative," emphatically said: "When the support rate drops below 50%, media criticism triples or quadruples. I will work hard to raise it over the 50% line."

One said: "Backward reform moves in the party have become clear and that has taken a toll on the support rate." Another noted: "The cabinet is suffering from adverse effects from the road revenue issue and other matters. The administration must send out messages about its policies." Concerned voices dominated the meeting.

Former Secretary General Tsutomu Takebe, an opponent to readmitting postal rebels in the party, also told the Asahi Shimbun: "I feel a sense of urgency. I have been worried that a situation like this would occur. I am keenly aware of the severity of public opinion."

In an Asahi Shimbun opinion poll in December, the support rate stood at 47%, down from 53% in November. A common view in the party was that the reinstatement issue would inevitably push down the cabinet's popularity. "I was even prepared to see the figure drop as much as 15 points. I was relieved that it did not go down that much," a senior LDP member noted.

6) Four opposition parties considering to jointly file no-confidence motion against foreign minister

ASAHI (Page 4) (Full)
December 13, 2006

The Diet affairs chiefs of four opposition parties -- Minshuto (Democratic Party of Japan), the Japanese Communist Party, the Social Democratic Party, and the People's New Party -- discussed

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yesterday their response to the current Diet session which is to end shortly and reconfirmed their plan to stop the bill amending the Basic Education Law.

Minshuto has also begun studying the option of filing a no-confidence motion with the Lower House against Foreign Minister Taro Aso, who has repeatedly called for debate about possessing nuclear weapons, in collaboration with the three other opposition parties. The party intends to use it to block the enactment of the education reform bill.

But the JCP objected, saying that a decision must wait until after the Lower House education law special committee intensively deliberated on the bill on Dec. 13. As a result, Minshuto decided to discuss the question of jointly filing a no-confidence motion at a later date. Even a senior Upper House Minshuto member called the no-confidence motion plan "premature." The party now intends to carefully determine the optimum timing.

Meanwhile, People's New Party Secretary General Hisaoki Kamei, after his meeting with his Minshuto and SDP counterparts, took this view about filing a no-confidence motion against the Abe: "In view of the cabinet's dropping support rating, we must take some kind of action. It is only natural that we file such a motion."

But a senior Minshuto member said, "If a motion were rejected, it might be taken as the cabinet winning public confidence." Cautious views are dominant in the party. There is also a view in the party that a no-confidence motion against the Abe cabinet must wait until next year's regular Diet session when the Upper House election next summer is close.

7) DPJ platform: Ambiguity left over collective security

YOMIURI (Page 4) (Abridged)
December 13, 2006

The leading opposition Democratic Party of Japan (Minshuto) informally decided yesterday to adopt its new platform. Its planks, however, leave ambiguity when it comes to collective self-defense.

The DPJ has been split over the question of whether to allow collective self-defense. In the party, a chasm exists between a group of conservative lawmakers in favor of Japan's participation in collective self-defense and a group of cautious lawmakers who hail from the now-defunct Socialist Party. Their divergence has cast a shadow on the party's security planks.

In its new platform, the DPJ allows Japan to exercise its right to self-defense "without getting caught up in arguments over the rights of individual self-defense and collective self-defense," thereby paving the way for Japan to participate in collective self-defense. However, the platform, heeding its socialist lawmakers, says Japan may do so only in the event of an attack on Japan.

In the DPJ's policy debate, its conservative lawmakers criticized such a precondition, with former DPJ President Seiichi Maehara claiming that there will be no case for collective self-defense under such a condition. However, the party leadership did not retouch the draft's wording that is somehow convincing to the right and left wings.

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DPJ planks for foreign relations, national security

-- The DPJ will not insist on conceptual arguments that used to differentiate individual self-defense and collective self-defense. Instead, Japan, based on its defense-only posture, will exercise its right to self-defense in conformity with Constitution Article 9 only if and when Japan sustains an incursion that directly threatens Japan's peace and security.

-- Japan is to take proactive part in United Nations peacekeeping operations, including those under UN Charter Article 41 and 42.

DPJ's security policy in its manifesto for 2005 lower house election

-- The DPJ will consider establishing a new organization for international peace cooperation.

-- The DPJ will formulate a new defense initiative and will overhaul Japan's defenses, including the Self-Defense Forces.

8) LDP's Koga urge Yasukuni Shrine to probe into enshrinement of Class-A war criminals

NIHON KEIZAI (Page 2) (Full)
December 13, 2006

The Association to Study Japan's Asia Strategy, made up of lawmakers from three factions affiliated with the former Miyazawa faction (Kochikai) in the Liberal Democratic Party (LDP), invited former secretary general Makoto Koga, chairman of the Japan Association of

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the Bereaved Families of the War Dead (Izokukai), to give a speech in its general meeting yesterday at party headquarters. In his speech, Koga referred again to the need for removing Class-A war criminals from Yasukuni Shrine. He stated:

"Both the Japan War-Bereaved Families Association and Yasukuni Shrine have to verify whether it is appropriate that Class-A war criminals were enshrined in Yasukuni. The Shinto shrine should be a place at which everyone can pay homage without feeling uncomfortable."

The meeting was held for the first time in five months, with 33 lawmakers attending. Regarding Izokukai's treatment of Class-A war criminals, Koga stressed, "We want to reach a consensus as early as possible. He also expressed unhappiness with Yasukuni, saying:

"There is room for the shrine to consider (separation of Class-A war criminals). It does not take the argument squarely for the reasons that it does not want to be involved in politics and that it is intolerable for it to think of the feelings of the bereaved families."

9) Prime Minister Abe willing to attend East Asia Summit

NIHON KEIZAI (Page 2) (Full)
December 13, 2006

When asked by reporters last evening about whether he would attend the East Asia Summit, which has been put off to January, Prime Minister Shinzo Abe expressed his willingness to attend it if his political schedule allowed, responding, "Since Asia diplomacy is

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important for Japan, I would really like to attend it."

The Philippines, the chair of the EAS, has postponed a series of diplomatic events, including the summits of the Association of Southeast Asian Nations (ASEAN), ASEAN and Japan, China, and South Korea, and other ministerial meetings. The Philippine government sounded out countries concerned about holding them January 11-13. The Japanese government, however, responded that it would be impossible for Abe to attend the EAS because he plans to visit Europe during that period. The Philippine government is now undertaking coordination with the summit member countries.

10) Japan, Australia agree to begin talks on EPA

NIHON KEIZAI (Page 1) (Full)
December 13, 2006

Prime Minister Shinzo Abe yesterday talked with Australian Prime Minister John Howard on the phone and the two leaders reached a formal agreement to begin government-to-government talks next year to conclude an economic partnership agreement (EPA) centering on a

free trade agreement (FTA). Japan looks to Australia to become a stable supplier of energy and mineral resources, while Australia is likely to call on Japan to open its agricultural market. Negotiations may run into difficulties over how to treat agricultural and livestock products.

Exports and imports between Japan and Australia amount to some four trillion yen. Of the products Japan imports from Australia, more than 20% are agricultural and livestock products, such as beef and wheat. Lawmakers affiliated with farm organizations of the ruling Liberal Democratic Party (LDP) and others, out of concern about a possible blow to domestic farmers, are becoming increasingly alarmed by the move for the concluding of the EPA. The government intends to discuss with Australia the question of whether primary agricultural products will be treated as exceptions to the removal of the tariffs. In this regard, Abe emphasized to reporters: "We must advance negotiations while paying attention to, for instance, the agricultural issue."

11) Authorities of Japan, South Korea, US investigating leading LCD makers over suspected cartel

ASAHI (Top Play) (Excerpts)
December 13, 2006

Authorities from Japan, South Korea, and the United States have launched an investigation into liquid crystal display (LCD) manufacturers on suspicion of forming a cartel for sales of liquid crystal panels to be used in flat televisions, personal computers and cellular phones. The South Korean Fair Trade Commission (FTC) is investigating LG Phillips LCD, Samsung Electron Co. (both in Seoul) and other companies. The Japanese FTC has ordered about 10 makers in Japan, including Sharp Corporation (based in Osaka), to explain their transactions in detail. The authorities of the three countries are likely to join hands in uncovering the details of alleged illegal practices.

A spokesman of LG said yesterday: "FTC members visited our main office on Dec. 8 to probe whether the company conducted anticompetitive practices. Our offices in Tokyo and the US have also been told by Japanese and American authorities to submit data."

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In an interview with the Asahi Shimbun, the spokesman of Samsung Electron admitted that it had been informed by the watchdog offices of the three countries of the start of investigation, saying, "We would like to cooperate in the investigation in a positive manner."

According to Yonhap News Agency, a South Korean news service, LCD manufacturers formed price and shipment-adjustment cartels in 2003 and 2004, when the LCD market was performing strongly, and investigation is underway on suspicion of the makers having obtained improper profits. A South Korean FTC official told the news agency: "The three countries' authorities in close cooperation have started an investigation into all the companies suspected to be involved in the cartel practices."

This South Korean official said, "Major customers are American companies, such as Dell," adding, "The view is spreading in South Korea that the investigation is going on supposedly under the lead of the US in response to a request from American firms that suffered an unreasonable loss."

A judicial authority from the US replied in response to an inquiry by the Asahi Shimbun, "We cannot comment."

The Japanese FTC issued an order to about 10 companies to report on their transactions. The firms include Toshiba-Matsushita Display Technology, a joint company of Toshiba Corporation and Matsushita Electric Industrial Co., Hitachi Displays (both in Tokyo), IPS Alpha Technology, a joint company of Hitachi, Toshiba, and Matsushita (in Mobara, Chiba), as well as the Tokyo branch offices of the Samsung Group and LG Phillips LCD.

According to informed sources, the LCD manufacturers of the three

countries are suspected of having concluded a price cartel agreement since 2000.

The spokesman of Sharp said that a subpoena has been issued to its subsidiary in the US from the US Justice Department. The company issued this comment: "Prices have been on the decrease in the LCD market, so we think the situation is different from the state of cartel practices being conducted. The investigation is now underway, and we are willing to properly cooperate in the investigation." Hitachi, IPS, Toshiba, and Matsushita all refused to make a comment.

12) Defense chief mulls moving up Futenma alternative construction

YOMIURI (Page 4) (Full)
December 13, 2006

Defense Agency Director General Kyuma, meeting the press yesterday, clarified his idea of frontloading the planned construction of an alternative facility for the US Marine Corps' Futenma Air Station in Ginowan City, Okinawa Prefecture. The Defense Agency had initially planned to build a Futenma alternative in a coastal area of Camp Schwab in the island prefecture's northern coastal city of Nago by 2014 to relocate the airfield's functions there.

The period of construction for the Futenma alternative is estimated at a total of eight years, broken down into three years for an environmental assessment of the relocation site and five years for construction work. "It would be better to make it done earlier if we

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can," Kyuma said, adding: "If we can make it done in two years instead of taking three years (for an environmental assessment), it's possible to make it done one year earlier. Construction will take five years, so it's also possible to make it constructed one year earlier. Besides, we can get it done even faster (if there is local cooperation)."

13) Japan to send civilian police to E. Timor

YOMIURI (Page 4) (Full)
December 13, 2006

The government decided yesterday to second two civilian police officers to the United Nations Integrated Mission in Timor-Leste (UNMIT), which is tasked with public security and other missions in East Timor. The civilian police officers will guide and oversee a local security organization.

14) Keidanren makes proposals on triangular mergers, calls for legislation to deal with M&As

ASAHI (Page 9) (Excerpts)
December 13, 2006

The Japan Business Federation (Nippon Keidanren) yesterday released a set of proposals, including one for setting legislation to deal with mergers and acquisitions (M&As) so that hostile takeovers by foreign companies can be regulated. A triangular merger system that allows foreign companies to purchase Japanese companies using their own stocks as the merger consideration is to be legalized next May. Keidanren is alarmed about a possible takeover offensive by foreign companies. It wants to make a pitch to the public through the recommendations.

The package also pointed out concern that if stockholders of Japanese companies are given foreign shares as a result of a triangular merger, a situation incomprehensible to them could occur.

Keidanren warned that if a manufacturing company is merged into a foreign company, the target company's technologies and R&D capability, which it had nurtured for a long period of time, could flow out to other countries, and should that occur, Japan as a whole could lose its overall international competitiveness, leading to a situation that could hurt national interests. Citing that European

countries and the US have measures to protect companies against hostile takeovers, the association claimed that there are no international standards for M&A legislation.

As specific measures to strengthen regulations on hostile takeovers, the association insisted that in the event of transferring securities that are not listed in Japan, such as foreign stocks, to Japanese stockholders, a specific resolution, which is stricter than the one adopted for ordinary mergers, should be adopted at a stockholders meeting.

15) Triangular mergers: Government negative toward adopting strict rules; Coordination of views with business circles will likely have hard going

YOMIURI (Page 9) (Full)
December 13, 2006

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The Japan Business Federation (Nippon Keidanren) yesterday released a six-item package of proposals, seeking strict rules to protect Japanese companies against hostile M&As. The package called for the adoption of strict requirements for approving triangular mergers, a new form of M&A method to be legalized next May. However, the government is negative toward the idea of adopting strict rules, as it hopes that the lifting of a ban on triangular mergers will spur foreign capital inflow, reinvigorating the economy. Regarding related tax measures, the government intends to consider creating a tax system that attaches importance to the promotion of investment. Coordination of views with business circles, which are seeking strict requirements for triangular mergers in order to prevent an M&A offensive by foreign companies, are expected to be hard-going.

Resolution requirement

In a triangular merger, a foreign company acquires a Japanese company by merging its subsidiary established in Japan with a target Japanese company.

Under this scheme, it is possible for an acquiring company to use its foreign parent company's stocks as the merger consideration given to stockholders of a target Japanese company. This will allow foreign companies to buy Japanese companies without using a large amount of cash. The system was incorporated in the Corporate Law enacted this May. However, the enforcement of the law was postponed for a year following business circles' protest that they need time to prepare for the M&A offensive by foreign companies.

A target company approves a takeover bid based on a special resolution, which requires the attendance of a majority of stockholders with voting right and approval from more than two-thirds of participants at a stockholders meeting. However, Nippon Keidanren in the package of proposals asked that in the event of stockholders of a target Japanese company receiving foreign stocks that are not listed in Japan as the merger consideration, a specific resolution instead of a special resolution should be adopted. In order for a specific resolution to be adopted, approval from a majority of stockholders in terms of their number, and more than two thirds in terms of the number of voting rights, is needed.

Objection

An LDP subcommittee on the Commercial Code on Dec. 5 started debating whether strict rules should be adopted for a resolution on triangular mergers. Many panel members are against the idea, saying that triangular mergers themselves are not a cause of hostile takeovers or that it is not desirable to employ strict rules for the sake of protecting corporate managers. The panel is expected to coordinate its views by next spring. Chances are that it will not adopt strict rules. Since both the Justice Ministry and the Ministry of Economy, Trade and Industry are also against the idea of adopting strict rules, coordination of views will likely be made with the possibility of not adopting strict rules.

However, since it is difficult to persuade Nippon Keidanren without

adopting strict rules, such coordination will likely be slow going.

Tax system

The government and the ruling camp are now considering the proper

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form of a triangular merger scheme in the process of annual tax code revisions for fiscal 2007. The LDP Tax System Research Commission, chaired by Yuji Tsushima, has indicated a policy of deferring taxation on capital gains of stockholders of a target Japanese company with the aim of facilitating triangular mergers. It also adopted a policy of introducing measures aimed at disapproving M&As using paper companies that have no business substance.

Chief Cabinet Secretary Shiozaki during a press conference yesterday implicitly asked that triangular mergers should not be excessively restricted by the tax system. He noted, "A new tax code should be in line with the principles of the Abe cabinet, which wants to revitalize Japan, bringing in growth of foreign countries."

The LDP tax panel is searching for ways to establish a new tax code that will not block investment by foreign countries, while preventing obvious tax evasion.

16) Ruling parties' tax reform outline proposes abolishing allowable maximum amount for write-off, includes mainly tax cuts for corporations

TOKYO SHIMBUN (Top Play) (Excerpts)
December 13, 2006

The Liberal Democratic Party and the New Komeito held a meeting of the ruling parties' Tax Research Commission yesterday and compiled a draft tax reform outline for FY2007. The draft proposes measures in accordance with the Abe administration's economic growth policy, including the review of the write-off system. As measures for individuals, consideration is given to housing-related taxation, such as the creation of a preferential tax system for remodeling houses into barrier-free ones, but the draft includes far larger tax-cut measures for corporations.

On the proposed reduction in the tax on capital gains and dividends to 10%, the LDP called for delaying the introduction of the preferential measure by one year. The New Komeito is expected to approve the LDP proposal, so a settlement is likely to be reached today.

The two ruling parties will adopt a tax reform package tomorrow.

Key points in the tax reform outline for FY2007

Extend the allowable period for deducting the losses accrued from transactions of houses.

Add barrier-free construction to the subjects to the housing loan tax break system.

Abolish the system of setting the allowable maximum amount for write-offs and shorten the write-off period for advanced facilities.

Abolish the taxation on reserves to affiliated companies only for small businesses.

Give preferential tax treatment to companies taking supportive measures for parenting and the second-chance program.

Extend the securities preferential tax system by one year.

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Extend the angel tax system by two years and expand the subjects to the system.

Start discussion on bold tax system reform, including a consumption tax hike.

SCHIEFFER